

Rate Issues

A. Rate Band Restrictions

Background

Currently rates for small employer groups cannot vary more than 30% from the midpoint of groups with the same benefits and case characteristics.

Options

1. Increase the amount that the rates may vary from the midpoint or completely eliminate this requirement.

Pro

- Would allow insurers to lower the rates of low-risk groups

Con

- Would allow insurers to raise the rates of high-risk groups

2. Decrease the amount that rates may vary from the midpoint.

Pro

- Will bring rates closer to a community rate, greatly benefiting high-risk groups

Con

- Rates of low-risk groups will increase

B. Restrictions on Rate Increases

Background

Currently insurers must limit the portion of the rate increase that is due to health status or claims experience to 15%. There are no restrictions on other components of the increase such as the increase of the new business rate and the increase due to changes in case characteristics (for example age bumps).

Options

1. Lower the allowable increase for health status or broaden the restriction so that it applies to the entire increase.

Pro

- Will reduce the increases that can be given to groups when they renew their contract.

Con

- Will restrict the rating flexibility of insurers and will likely lead to higher overall rates.

2. Limit the change in the new business rate.

Pro

- Will lower rates and rate increases overall

Cons

- Will decrease the ability of insurers to make a profit potentially causing solvency problems or causing insurers to exit the market in Wisconsin.
- Insurers may set the initial rates higher

C. Non-smoker and Other Healthy Lifestyle Discounts**Background**

Currently these are permissible rating options. However, they are rarely, if ever, used.

Options

1. Require insurers to give discounts to non-smokers and/or those who engage in healthy lifestyle activities.

Pros

- Will offer lower rates to those people who contribute to their own health.
- May encourage people to stop smoking and engage in other healthy lifestyle activities.

Cons

- Will be difficult to verify and administer
 - Will shift the cost to smokers and those without the healthy lifestyle
2. Issue a bulletin to all insurers advising them that smoking and healthy lifestyle activities are permissible case characteristics. Therefore, the rate differentials would not count toward the 30% rate band limitation.

Pros

- Will offer lower rates to those people who contribute to their own health.
- Informs insurers of a choice they have but is not mandated.

Cons

- Will be difficult to verify and administer
- There is no guarantee discounts will be offered

3. Require insurers to give discounts to employers who maintain a smoke-free workplace.

Pros

- May encourage employers to implement a workplace smoking ban
- Is easier to administer than identifying individual smokers

Con

- Will shift the cost to employers who do not or cannot maintain a smoke-free workplace

D. Definition of Small Employer**Background**

Currently a small employer is defined as an employer with 2-50 employees.

Option

Expand the definition to 2-100 (or another number) eligible employees.

Pros

- Will expand the risk pool to include larger groups, which generally cost less to insure.
- Will allow larger employers to obtain coverage on a guarantee issue basis

Con

- Will raise the rates of larger groups who may then elect other options such as self-funded insurance.

E. Rate Guarantee Provisions**Background**

Currently insurers are permitted to guarantee zero or limited rate changes for a period of time, but to do so risks the insurer's ability to comply with the rate

band restriction. (For example, if a group receives an increase that is less than the change in new business rate, this may put the group's rate to a point that is more than 30% below the midpoint.)

Options

1. Permit an exemption from the rate band requirement for groups that are given the rate guarantee.

Pro

- Permits a period of guaranteed rates without risking noncompliance with state law.

Cons

- After the period of the guarantee, insurers will need to increase the group's rate in order for the group to catch up to the current rate level.
 - May lead to higher rates for groups without a rate guarantee
 - Multiyear rate guarantees are a significant financial and solvency risk.
2. Permit insurers to establish restrictions on employers who drop coverage before a set period of time.

Pros

- Will provide incentive for the insurer to offer lower rates
- Will reduce administrative expenses associated with enrolling new groups.

Cons

- Would limit the employer's free choice
- Restrictions such as permitting an insurer to deny coverage to a group who has dropped coverage in the recent past may not be sufficient incentive to an employer since other insurers would still be bound to guarantee issue.